PLANNING PROTOCOL FOR THE SOUTHEAST POWER GRID RTO

I. Transmission Planning by the Transmission Provider

A. The Southeast Power Grid (SPG) Planning Process:

1. The Transmission Provider[1] is responsible for performing the planning function for the SPG RTO Transmission System ("Transmission System") in accordance with this Protocol. The SPG Planning Process is an open and participatory planning process that effectuates the planning of a reliable and efficient Transmission System to meet the needs of all users of the Transmission System in a non-discriminatory manner. The Transmission Provider will adopt NERC planning standards, Regional Reliability Council requirements and Nuclear Regulatory Commission ("NRC") requirements relating to nuclear plants, in performing its planning function. The Transmission Provider also will coordinate all planning with non-participating owners/operators ("NPOs").

2. The SPG Planning Process involves the planning necessary for the Transmission Provider to meet the needs of all users of the Transmission System (utility generation, network generation, merchant generation, IPPs, LSEs, etc.) seeking long-term Network Transmission Service, Point-to-Point Transmission Service or Generation Interconnection Service under the Tariff, including planning for new interties with NPOs and control areas located outside of the SPG region.

3. Pursuant to Sections I.A, I.B and II, the SPG Planning Process shall also:

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[1] References to the Transmission Provider refer to the Transco or the IMA as appropriate.

- Identify and facilitate, in a timely manner, the adoption and implementation of transmission projects and/or potential generation alternatives that can effectively relieve congestion;

- Identify and evaluate longer range needs and facilitate transmission projects to expand competitive markets, including increased intertie capacity at the interfaces;

- Maintain and enhance the efficiency and reliability of the Transmission System;

- Consider whether expansion plans required to provide requested transmission service can be combined into a more efficient expansion plan; and

- Assess whether expansion can efficiently reduce overall Transmission System losses.

This process shall encourage and provide opportunities for meaningful, in-depth participation by all users and owners of the Transmission System, state regulatory bodies and other interested parties. In order that proposed generation and transmission projects are effectively coordinated so as to ensure reliability and efficient congestion management, for each planning period, the SPG Planning Process shall include, at a minimum, timely, regular and complete public disclosure, consistent with confidentiality requirements and information disclosure policies, pursuant to Sections I.A.9-10 and I.B.h, of:

(a) any transmission projects proposed or endorsed;

(b) the underlying assumptions and data on which the proposal is based;

(c) any analysis relied upon by the Transmission Provider concerning the proposed transmission plan or proposed generation alternatives offered by users of the

Transmission System; and documents supporting assumptions underlying the proposed transmission expansion plan that are challenged by users of the Transmission System in the SPG Planning Process.

4. All requests for transmission service under the Tariff (i.e., requests involving Network Transmission Service, Point-to-Point Transmission Service, or Generation Interconnection Service) or requests for connection of new tie lines will be made to the Transmission Provider and posted on the OASIS in accordance with FERC policy regarding requests for transmission service.

5. The Transmission Provider shall have the overall responsibility for analyzing and responding to each transmission request. The Transmission Provider shall perform, or cause to be performed through a single set of studies processed in accordance with this Protocol, planning analysis for the specifics (e.g., type of long-term firm transmission service, term, reserved capacity, etc.) of the requested transaction using as input all confirmed existing long-term firm transmission obligations, the Local Area Planning Process discussed in Section I.B, the Generation Interconnection Planning Process discussed in Section I.C and the data bases discussed in Section I.D to determine the impact of the requested services on the Transmission System. The results shall be documented and presented by the Transmission Provider to the transmission service requestor(s).

6. Any request received by the Transmission Provider for transmission service in an Independent Transmission Company ("ITC") region shall be forwarded to the ITC for the purpose of conducting appropriate studies and analyses in accordance with the policies and procedures contained in the SPG OATT and this Protocol. To ensure one-stop shopping and a single study principle, where the request impacts facilities on systems other than the ITC's, the Transmission Provider shall coordinate performance of a joint study with the ITC. The joint study will be completed in accordance with the timeframe established in

the SPG OATT. The ITC shall forward all results to the Transmission Provider for review and approval.

7. The Transmission Provider shall also continually reassess, consistent with Exhibit 2 to this Planning Protocol, the ability of the Transmission System to reliably serve on-going long-term firm transmission service obligations (e.g., integration of Network Resources with existing Network Loads and projected load growth of such Network Loads, etc.) using the data bases discussed in Section I.D.

8. The Transmission Provider will coordinate all planning of the Transmission System with the planning of NPOs.

9. The Transmission Provider is not obligated to plan the Transmission System for non-firm or short-term firm transmission service (i.e. transmission service with a duration of less than one year). The Transmission Provider will process requests for such service in accordance with the SPG OATT.

10. The analysis performed pursuant to the SPG Planning process (including potential solutions) will be provided to the transmission service requestor. Once the study is completed, the existence of that study will be posted on the OASIS. Such studies will be made available (except for data designated as confidential pursuant to Section I.D hereof) upon request, subject to the payment of a nominal processing fee.

11. The Transmission Provider, in coordination with the users of the Transmission System, will have procedural milestones associated with the transmission expansion plan. Such procedural milestones will be established to facilitate, in an orderly and efficient manner, an opportunity for the users of the Transmission System to participate and review the transmission expansion plan, at both the regional and sub-regional level. Exhibit 1 to this Planning Protocol sets forth these procedural milestones.

12. As a transition mechanism, at the commencement of operation of the Transmission Provider, the Transmission Provider shall adopt and incorporate into its transmission expansion plan the most recent ten (10) year plan of all Participating Owners ("POs"), ITCs and Divesting Owners associated with facilities that are considered part of the Transmission System, including facilities that are planned to serve Network Customers, to satisfy outstanding Long-Term Firm Point-to-Point transmission service requests of the POs and Divesting Owners, or to interconnect new generation.

(a) Such ten (10) year plan shall include:

(i) Any new generation that is identified within the planning horizon in the most recent ten year plans of the POs, ITCs and Divesting Owners prior to the commencement of the first SPG Annual Regional Planning Process; and

(ii) Any new or modified facility that is within the planning horizon, that is considered part of the Transmission System and / or related to a Point of Delivery associated with Network Load, of the POs, ITCs and Divesting Owners prior to the commencement of the first SPG Annual Regional Planning Process.

(b) The ten year plans adopted by the Transmission Provider shall be included in the Transmission Provider's initial expansion plan. To the extent that the Transmission Provider subsequently determines an alternative plan exists that requires the cancellation of or delay to a transmission project included in the ten year plan of a divesting owner, ITC or PO and which is superior to that ten year plan, the Transmission Provider shall consult

with the divesting owner, ITC or PO to attempt to reach agreement on the cancellation or delay. If the Transmission Provider cannot reach agreement with the divesting owner, ITC or PO, the divesting owner, ITC or PO may request dispute resolution.

(c) A PO or ITC shall be entitled to recover in its revenue requirement the costs incurred with respect to any project that is canceled pursuant to paragraph (b) above.

13. The Transmission Provider and ITCs may engage in participant-funded expansion, with other market participants in the SPG RTO region. Such expansion projects may include: (i) changing of network resources; (ii) elimination of load pockets; (iii) upgrades for point-to-point customers or generators; (iv) deliverability of network resources; and (v) export-related upgrades. The Transmission Provider cannot cancel any such project except to the extent that the Transmission Provider determines that such project adversely affects the reliability of the grid.[2]

B. Local Area Planning Process Associated With Network Load and Existing and Confirmed Firm Point-to-Point Transmission Service:

1. The Local Area Planning Process involves an assessment and subsequent development of expansion plans associated with the Transmission System where Network Load is served and existing and confirmed Firm Point-to-Point transmission service is provided.

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[2] Various methods of participant funded expansions have been advocated in different regions of the country. The SPG group has neither committed to nor discussed in detail any particular method of participant funding. One such method, however, is presented in the testimony of Michael M. Schnitzer, submitted on December 29, 2000, on behalf of Entergy Services, Inc., in Docket No. RT01-75-000.

2. The Local Area Planning Process is performed by, or under the oversight of, (Local Area Planning is delegated to ITCs) the Transmission Provider, with participation and coordination from each load serving entity ("LSE") receiving Network Transmission Service and confirmed and existing Point-to-Point Transmission Service reservations served by the Transmission Provider and any PO whose facilities serve the LSE in order to handle requests for new Point(s) of Delivery and to determine potential reliability problems with local area transmission systems. The Local Area Planning Process will determine alternative solutions to serve new Point(s) of Delivery and to address reliability problems found, and document the results in a study report which will be presented by the Transmission Provider to the LSE(s) and, except with respect to ITCs, to the PO(s) whose facilities serve the LSE(s). In conducting the Local Area Planning Process, the Transmission Provider or ITC, with input from the LSE and any applicable PO, must consider the following:

   (a) The need for expansion of existing facilities shall be determined by testing the ability of the existing and planned system to meet regional reliability council criteria as well as the SPG Planning Standards then in effect.

   (b) Alternative solutions to the criteria violations associated with local area reliability problems shall be developed and evaluated considering economics, lifetime, feasibility, and other specifics associated with the request. As part of a request for a new Point of Delivery by an LSE, such request shall include a justification for the proposed new Point of Delivery, including an analysis of viable distribution alternatives. The Transmission Provider or ITC shall incorporate the LSE's justification into an overall evaluation of alternatives to the proposed new Point of Delivery.

(c) Requests for new Points of Delivery shall be evaluated taking into consideration distribution alternatives as applicable, location of existing delivery points, transmission feasibility, economics, and other specifics associated with the request, on a comparable basis for all LSEs' existing Points of Delivery, taking into account any specific reliability needs of the LSE customer(s) served from such Point of Delivery. The Transmission Provider or ITC will make a reasonable effort to accommodate the LSE's requested alternative, based on the above criteria. Except as otherwise provided for in Section I.E below and notwithstanding any other provision of the Tariff to the contrary, upon the request of any Transmission Customer, the Transmission Provider or, where applicable, an ITC or PO, shall be obligated to permit the construction of any facilities required to establish a new Point of Delivery regardless of any distribution alternative(s) to such construction that may exist, provided that the new Point of Delivery does not adversely affect system reliability; and provided further that the requesting Transmission Customer agrees to pay Transmission Provider, the ITC, or the PO for the costs incurred by the Transmission Provider, ITC, or the PO in constructing the requested Point of Delivery.

(d) Subject to Section I.E of this document, the Transmission Provider, ITC, or the PO, as applicable, consistent with the PO Agreement, shall, consistent with the SPG Planning Standards, be responsible for the design, construction and operation of all facilities considered part of the Transmission System. The LSE shall be responsible for the design, construction and operation of all facilities that are part of the LSE's system. With respect to circumstances where a new Point of Delivery involves the establishment of a transmission to distribution substation or a metering point, the Transmission Provider, ITC, or the PO, as applicable,

shall be responsible for the design, construction and operation of all transmission system equipment in accordance with guidelines to be developed. The LSE(s) shall be responsible for the design, construction and operation, in accordance with guidelines, which will be developed, for all of the facilities on the LSE's side of the Point of Delivery.

(e) The Transmission Provider, and the ITC where applicable, will collaborate with LSE(s) and the PO whose facilities serve such LSE(s) on the design and construction of the Point(s) of Delivery facilities to seek an efficient construction means.

(f) The Transmission Provider or ITC shall, if applicable, develop procedures for the design and operation of a Point of Delivery that serves as a Point of Delivery for two or more LSEs.

(g) New Point(s) of Delivery shall be designed on a basis that provides for comparable reliability to the existing Point(s) of Delivery, taking into consideration distribution alternatives as applicable, location of existing delivery points, transmission feasibility, and economics, on a comparable basis for all LSEs' existing Points of Delivery, taking into account any special reliability needs of the LSE customer(s) (e.g. airports, hospitals, etc.) served from such Point of Delivery.

(h) Specifics regarding the construction and other Point of Delivery matters relating to such new Point of Delivery facilities shall be addressed on a case-by-case basis pursuant to the contractual arrangements among the respective LSE and the Transmission Provider (and the ITC or PO if the transmission facilities that must be expanded are owned by the ITC or the PO).

3. The analysis performed pursuant to the Local Area Planning Process (including potential solutions) will be provided to the LSE and included in the sub-regional and regional processes in accordance with Exhibit 1 to this Protocol. Once the study is completed, the availability of that study will be posted on the OASIS. Such studies will be available (except for data designated as confidential pursuant to Section I.D hereof) upon request, subject to the payment of a nominal processing fee.

   (a) A PO and/or a Divesting Owner shall have the option of performing the Local Area Planning function discussed in this Section I.B for the LSE(s) served by a respective PO's or Divesting Owner's transmission facilities to such PO or Divesting Owner for three years following the commencement of the Transmission Provider operations (the "transition period"). The results and recommendations of such Local Area Planning performed by the PO(s) or Divesting Owner(s) during the transition period will be subject to review and approval, or modification, by the Transmission Provider. At the end of the Transition Period, the Transmission Provider assumes responsibility for performance of the Local Area Planning Function. To the extent the Transmission Provider requires the expertise and services of the POs or others in performance of the Local Area Planning Function, SPG may contract with such entities.

   (b) The Transmission Provider shall assign the performance of the Local Area Planning function discussed in this Section I.B. for the LSE(s) served by the ITC's transmission facilities to the ITC. The results and recommendations of such Local Area Planning performed by the ITC shall be subject to review and approval by the Transmission Provider, except to the extent that projects are being funded in accordance with the participant funding process and do not adversely impact the reliability standards of the Transmission Provider.

C. Generation Interconnection Planning:

1. All requests for Generation Interconnection Service ("GIS") shall be submitted to the Transmission Provider for processing.

2. The analysis of requests for GIS shall be in accordance with the Generation Interconnection Procedures (GIP) of the Transmission Provider.

3. Any request for GIS received by the Transmission Provider for interconnection in an ITC region shall be forwarded to the ITC for the purpose of conducting appropriate studies and analyses in accordance with the policies and procedures contained in the SPG OATT. To ensure one-stop shopping and a single study principle, in the event that such a request will also require facilities to be modified on an adjacent PO's or the Transco's system, the Transmission Provider and the ITC shall conduct a single joint study in accordance with the timeframe established in the SPG GIP. The ITC shall forward the results of all its studies, joint or otherwise, to the Transmission Provider for review and approval.

4. The Transmission Provider shall be authorized to act as the agent for all POs or ITCs and will establish a standard Generation Interconnection Agreement to be used for all GIS. POs shall have the opportunity to execute Interconnection Agreements on their own behalf, provided that, once the PO or ITC is given the opportunity to execute the agreement, failure of the PO or ITC to execute the agreement shall not impede or delay the implementation of the interconnection in any way.

D. Creation and Maintenance of Data Bases:

1. The Transmission Provider shall develop databases (e.g. load flow, dynamic and short circuit) using information from Parts I.A, B and C as well as information NPOs and ITCs..

2. Databases for use in the planning process delineated in this document will be developed by the Transmission Provider with data input (e.g., 10- year load growth and firm planning obligations) and coordination from the affected LSEs, POs, ITCs, and NPOs. Databases are approved by the Transmission Provider, affected LSEs, POs, ITCs and NPOs and provided to LSEs, POs, ITCs, NPOs and ITCs for their participation in the planning process.

3. The Transmission Provider shall file at the FERC and make available to each PO, NPO, ITC, LSE and transmission service requestor(s) databases as are required by FERC (e.g. Form 715). The Transmission Provider shall also make available data that is requested by other regulatory agencies.

4. Entities providing information to the Transmission Provider as part of the planning process may designate such data as being confidential commercial information, consistent with FERC policy regarding the confidentiality of commercial information. The Transmission Provider shall not make such data available to third parties without the agreement of the providing entity unless required to do so by a court or regulatory agency with jurisdiction over the Transmission Provider.

5. LSE(s), transmission service requestor(s), generation interconnection requesters, POs, NPOs and ITCs have an obligation to provide the requisite information to the Transmission Provider to ensure reliability and coordinated expansion plans.

E. Enhanced Facilities

1. A Transmission Customer may request Enhanced Facilities, regardless of whether such facilities have been identified as necessary as part of the SPG Planning Process. Enhanced Facilities shall include, but not be limited to (1) facilities requested for meeting retail customer needs; (2) facilities, including substations, switching stations, line segments, towers, poles and other facilities which the Transmission Customer determines are necessary or appropriate to support its provision of distribution services; (3) facilities to be constructed pursuant to governmental orders, (4) facilities which, although identified as necessary by the SPG Planning Process, are not scheduled to be in-service at the time requested by the Transmission Customer, (5) an alternative Point of Delivery on the Transmission System, and (6) participant funded facilities. A request for Enhanced Facilities may be made at any time and for any reason, including but not limited to, enhanced reliability, environmental, aesthetic and other land-use planning reasons.

2. The Transmission Provider will grant the request for Enhanced Facilities, provided that each of the following conditions is met:

   (a) The requested Enhanced Facilities do not adversely affect system reliability; and

   (b) The requesting party shall be responsible for all costs incurred in connection with the Enhanced Facilities, including any costs associated with placing facilities in-service prior to the time scheduled, provided that such costs would not otherwise have been incurred but for the request to construct the Enhanced Facilities or to place them in service earlier than planned.

F. Expedited Construction

1. A Transmission Customer may at any time request the Transmission Provider to provide expedited engineering, design, procurement and construction of a Delivery Point or Enhanced Facilities, provided that the conditions of Section I.E.2 are satisfied, and provided that, in addition, the following conditions are met:

   (a) As soon as reasonably practicable after the Transmission Customer determines that it will need expedited construction, the Transmission Customer will so inform the Transmission Provider and will provide it with conceptual plans of the facilities to be constructed and the proposed schedule for completion.

   (b) The Transmission Provider will review the plans for the purpose of determining whether the expedited construction will adversely affect system reliability and to determine, in conjunction with the ITC where applicable, the feasibility of the proposed expedited construction schedule. This review is not a substitute for the planning process associated with a request for service or a request to amend existing service in accordance with Parts II or III of the Tariff. The procedures applicable to requests for service under Parts II and III also must be followed to the extent placing the expedited construction into service is associated with new or revised transmission service.

   (c) The Transmission Provider shall, within sixty (60) days following the submission of the detailed plans, make a determination as to whether the Expedited Facilities will adversely affect system reliability, and whether the proposed expedited construction schedule can be accommodated.

   (d) If the Transmission Provider determines that the expedited construction does not adversely impact reliability and that the proposed expedited schedule can

be accommodated, the Transmission Provider shall provide the Customer with a letter agreement providing for the Transmission Provider, ITC, and/or the PO to begin engineering design, procurement and construction activities as necessary. The letter agreement will provide for the Customer to provide the information the Transmission Provider, ITC, or PO needs to complete said work and to pay for all costs of said activities and equipment that are prudently incurred by the Transmission Provider, ITC, and/or PO, and shall provide security, for such payment.

(e) If the Transmission Provider or ITC is unable to accommodate the expedited construction schedule, the customer shall have the option to construct the expedited facilities associated with Points of Delivery. All expedited facilities construction by the customer shall be subject to the oversight and outage coordination of the Transmission Provider and must comply with safety, planning, design and construction standards of the Transmission Provider, ITC, and/or PO.

(f) Prior to interconnecting any expedited facilities constructed by a Transmission Customer to the Transmission System, the Transmission Provider, PO or ITC shall have the right to inspect such facilities to ensure that, as constructed, they will not adversely affect the reliability of the Transmission System, and the Transmission Provider may refuse to permit the interconnection until the Transmission Provider is satisfied that there will be no adverse impacts on the reliability of the Transmission System. To the extent there are disputes concerning expedited facilities, the parties shall have the right to utilize the Alternative Dispute Resolution procedures contained in the OATT.

2. If any portion of the expedited facilities constructed by the transmission customer are of a type that would be considered part of the Transmission System, the Transmission Customer shall enter into a Transmission Operating Agreement with respect to such facilities, unless the Transmission Provider, PO, or ITC and the transmission customer otherwise agree upon the terms and conditions for the transfer of title to such facilities to the Transmission Provider.

3. The Transmission Provider shall determine whether all or a portion of any expedited facilities that are included in the Transmission System should be treated as New Transmission Investment or whether all or a portion should be treated as Enhanced Facilities, or Facilities subject to a Participant Funding Arrangement, the cost of which must be borne by the Transmission Customer pursuant to Section I.E.2.b.

4. All expedited facilities constructed by the transmission customer that are not made part of the Transmission System shall be operated by the Transmission Customer at its sole expense.

G. Planning, Design, and Construction Standards

1. The Transmission Provider shall develop appropriate standards for the planning ("SPG Planning Standards"), design ("SPG Design Standards") and construction ("SPG Construction Standards") of transmission facilities planned, designed and constructed by the Transmission Provider and, where applicable, POs and/or ITCs . These standards shall apply on a comparable basis.

2. The Transmission Provider shall phase in the SPG Planning Standards, SPG Design Standards and SPG Construction Standards as soon as reasonably practicable from the commencement of Transmission Provider operations.

3. A Transmission Customer may request application of design and construction standards higher than those established by the Transmission Provider. Such a request may be made for any reason, including but not limited to, enhanced reliability, environmental, aesthetic and other land-use planning reasons. Such request shall be granted, provided that each of the following conditions is met.

   a. The transmission customer must submit a detailed written request to the Transmission Provider detailing the proposed enhanced design and construction standards.

   b. The design and construction standards must not impair the reliability of the Transmission System when compared to the SPG design and construction standards.

   c. The Transmission Customer must agree to reimburse the Transmission Provider, ITC, or PO, for all costs incurred as a result of applying the higher design and construction standards to the subject transmission facilities.

II. Transmission Expansion

A. If, as a result of the SPG Planning Process performed pursuant to Section I, it is determined that transmission facilities must be constructed, the Transmission Provider shall, with participation from and coordination with any affected PO, NPO or ITC, make a final determination as to the best available alternative, consistent with the then applicable SPG Planning Standards and SPG Design Standards, determined in accordance with the following factors:

1. The Transmission Provider shall take into account the estimated costs of proposed alternatives, as well as impacts on reliability, impacts on existing firm service, and consistency with the long-term planning for the region. In order to continually provide better cost estimates, the Transmission Provider shall take into consideration the accuracy of previous cost estimates

versus the actual cost of such installed transmission facilities in developing future cost estimates. Additionally, the Transmission Provider shall avoid, whenever possible, the imposition of unreasonable costs.

2. The Transmission Provider shall provide oversight of the on-going costs during the engineering and planning stages as well as during the construction of facilities deemed part of the Transmission System. If as part of such oversight responsibility the Transmission Provider determines that the possibility exists that the cost of facilities planned to be constructed may exceed the estimated cost of such facilities by greater than twenty (20) percent, the Transmission Provider shall reevaluate available alternatives and advise the Transmission Planning Committee regarding any recommended variance from the initial plan.

3. If the best available alternative requires the construction of facilities by a NPO, the Transmission Provider shall enter into good faith negotiations to reach agreement with the NPO to construct the required transmission facilities or to allow the Transmission Provider to construct such facilities. If the NPO does not agree to such construction, the Transmission Provider shall select the next best available alternative, determined in accordance with Section II.A.

4. It must be feasible for the entity constructing the facilities to obtain all necessary permits for such construction. The cost of obtaining and complying with such permits shall be included in the cost of the facilities in determining the best available alternative. If it is not feasible to obtain the necessary permits for the best available alternative, the next best available alternative shall be selected.

5. In considering whether an alternative is the best available alternative, the Transmission Provider shall consider whether the alternative addresses congestion and whether the alternative would decrease or increase congestion

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6. The entity (i.e., the Transmission Provider, ITC, or PO) constructing the facilities must be able to have the opportunity to fully recover the reasonable cost of the facilities in rates or through other charges approved by the appropriate regulatory authority. This condition may be waived by the entity constructing the facilities.

7. The costs to be incurred by the prospective owner of the incremental facilities, the identity of which shall be determined pursuant to Section II.B., shall be taken into consideration in determining the best available alternative.

8. The Transmission Provider also shall consider market solutions, including solutions that do not require the construction of new facilities. The Transmission Provider shall take into account such market solutions in determining the best available alternative.

9. The Transmission Provider shall accommodate a transmission customer request to implement higher design and construction standards than those set by the Transmission Provider so long as the transmission customer has complied with the requirements in Section I relating to higher design and construction standards requests.

B. The entity that constructs and owns new transmission facilities, pursuant to the discussion in Section II.A above, shall be determined as follows.

1. If the facilities are to be added to the existing facilities of a PO or ITC, then that PO or ITC shall have the option of constructing and owning that portion of the new facilities that is to be located in its service area. If the facilities are to be added to the existing facilities of more than one PO or ITC, then each PO or ITC shall have the option of constructing and owning the facilities to be

added to its existing facilities that are to be located in its service area.

2. If facilities are to be added to both the existing facilities of a PO and/or ITC and the Transmission Provider, the PO or ITC shall have the option of constructing and owning the facilities to be added to its existing facilities that are to be located in its service area, and the Transmission Provider shall construct and own the remaining facilities.

3. If the facilities are to be added to the existing facilities of the Transmission Provider, but do not require facilities to be added by a PO or ITC, or if a PO or ITC declines the option of constructing and owning new facilities, then the facilities will be constructed and owned by the Transmission Provider.

4. If a PO or ITC is selected to construct and own transmission facilities and that PO or ITC fails to obtain necessary permits or financing or fails to commence construction within a reasonable period of time, then the Transmission Provider shall construct and own the facilities itself.

5. Regardless of the entity selected, the new facilities shall be designed in accordance with the then applicable SPG Design Standards and constructed in accordance with the then applicable SPG Construction Standards, unless higher design and construction standards have been proposed and agreed to by the Transmission Provider in accordance with the higher design and construction standards request requirements in Section I, in which case the higher standards would apply. If a PO or ITC fails to comply with the then applicable SPG Design or Construction Standards, then–following the PO or ITC being provided written notice and a reasonable opportunity to address and correct the deficiencies–the Transmission Provider shall make any necessary changes, and the costs of such changes shall be recovered from the PO or ITC (which may not be collected in that PO's or ITC’s revenue requirement).

C. State regulatory bodies have the right to review the studies (and supporting data) and to provide input to the Transmission Provider during the decision making process as to the need for new transmission facilities. To the extent that proposed incremental facilities selected by the Transmission Provider include facilities that are subject to the applicable state regulatory body's siting jurisdiction, the proposed expansion shall be submitted to such state regulatory body for its review and approval in accordance with the relevant statutory standards.

D. To the extent any regulatory body lawfully orders an LSE, ITC, or PO under its jurisdiction to construct facilities that are considered part of the Transmission System, then the Transmission Provider accepts the responsibility to build such facilities if the LSE, ITC, or the PO cannot, or does not desire to, do so.

E. The recovery of costs of transmission facilities constructed by the Transmission Provider, ITC, or PO(s) will be in accordance with the SPG OATT and FERC policies. The Transmission Provider shall have the right to review all aspects of a construction project undertaken by a PO or ITC pursuant to this Planning Protocol, including design standards, costs, and construction schedules.

F. The Transmission Provider may require a PO, ITC, or Divesting Owner, to the extent necessary, to apply for all necessary certificates of public convenience and necessity and permits for the construction of transmission facilities that will become part of the Transmission System, and to use their power of eminent domain to assist the Transmission Provider in the acquisition of any necessary property rights, including rights of way, for the construction of such transmission facilities.

III. Transmission Planning Committee

1. No later than the date this Tariff becomes effective, The Advisory Committee shall create a Transmission Planning

Committee as a subcommittee of the Advisory Committee. The Transmission Planning Committee shall be composed of one member from each stakeholder group represented on the Advisory Committee.

2. The Transmission Planning Committee shall provide advice and input regarding the planning process to the Transmission Provider. Further, to the extent requested by the parties involved, the Transmission Planning Committee shall provide advice and possible alternatives as to unresolved planning and expansion matters. In the event that such matters referred to the Transmission Planning Committee cannot be resolved, the matters will be resolved in accordance with the Dispute Resolution Procedures set forth in the Tariff.

IV. <u>The Role of the State Regulator and Regional Reliability Council (RRC) in the Reliability and Planning Process</u>

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A. The RRC's role in the reliability and planning process shall be as follows:

1. The RRC shall review and assess the plans and reliability assessment of the Transmission Provider (including POs or ITCs as necessary).

2. The RRC shall monitor and ensure compliance with NERC reliability standards.

B. A state regulatory body’s role in the planning process shall be as follows:

1. Any state regulatory body shall have the same right to participate in the planning process described in Sections I and II as any other entity, to the extent that it so chooses.

2. The creation and operation of the Transmission Provider will not affect any state regulatory body's ability to participate in the

RRC's review of the plans and reliability assessment of the Transmission Provider provided for in Section IV.A.1 above.

3. All proposed construction of transmission facilities subject to the applicable state regulatory body siting jurisdiction shall be submitted to such state regulatory body for its review and approval.

V. Inter-Regional Planning

1. The Transmission Provider will coordinate all inter-regional planning.

2. The Transmission Provider will develop practices to ensure the coordination of reliability and market interface practices among regions. The Transmission Provider will either develop these practices itself or in coordination with an independent entity that covers several regions or an entire interconnection. The Transmission Provider will submit a report to FERC on its progress in the development of coordination standards within one year of its commencement of operations.

Exhibit 1
To The
Planning Protocol

Annual Regional Transmission Planning Process

In order to implement the transmission expansion plan, procedural milestones are established as set forth below in order to effectuate an Annual Regional Transmission Planning Process. The process envisions a two-step approach that will include development of subregional plans and an overall regional plan:

1. In October of each year, the Transmission Provider will notify and post on the OASIS a request for data from Network Customers concerning expected usage of the Transmission System for the next 10 years (*e.g.*, demand/load forecasts incorporating in such forecast the current year's winter and summer peak data, supply forecasts for the 10 year period (i.e., Network Resource(s)); proposals for new interconnections, Points of Delivery, proposals for transmission system upgrades, etc.). The Transmission Provider shall obtain similar information from NPOs located in the region in its capacity as security coordinator of the region.

2. By December 1 of each year, Network Customers of the Transmission Provider shall submit the data requested in paragraph 1. The Transmission Provider will develop a regional planning model that incorporates: (i) customer inputs; (ii) transmission owner and ITC data; and (iii) firm point-to-point transactions, committed resources and connected loads.

3. A transmission customer may make a request for long-term firm transmission service (i.e., Long-Term Firm Point-to-Point, Network Service) and/or Generation Interconnection Service and have such request processed in accordance with the provisions contained in the OATT, at any time during the year. Such request for service will be processed based on:

    (i) the existing Transmission System;

    (ii) the regional expansion plan;

(iii) all valid requests for long-term firm transmission service and GIS that are submitted prior to such request and which impact the processing of such request.

In addition, for each annual regional plan subsequent to the initial planning cycle, a confirmed request for long-term firm transmission service or GIS submitted prior to December 1 will be included in the base assumptions for that year's Annual Regional Transmission Planning Process.

4. The Transmission Provider, or as appropriate the ITC, shall conduct studies regarding the need for incremental transmission facilities (including potential alternatives - e.g., generation additions) taking into consideration all existing and reserved long-term firm transmission service, and post the availability of such studies on the OASIS.

5. By June 1 of each year, the Transmission Provider shall post on its OASIS a preliminary expansion plan for each of the subregions that provides for the transmission needs of the users in that subregion. The Transmission Provider shall also post the time and location of the subregional planning summits. Interested parties may review and begin development of alternative solutions, if any, to the subregional plan.

6. On June 15, each of the subregions will hold planning summits at which all users of the Transmission System, appropriate state commissions and interested parties may participate in a detailed review and present their comments regarding the preliminary expansion plan for each subregion.

7. By July 1, all users of the Transmission System, appropriate state commissions and interested parties will be able to propose to the subregions alternative solutions in lieu of or in addition to the proposed solutions.

8. By August 15, the subregions will evaluate the customer proposed solutions and, when appropriate, run additional load flow, short circuit and stability analyses to test alternatives. The subregional plan will then be incorporated into the regional expansion plan. The Transmission Provider will review and

approve the transmission expansion plans of the subregions and incorporate such plans into the development of a draft regional expansion plan.

9. By September 15, the draft regional expansion plan will then be posted on OASIS.

10. By October 1 of each year, the Transmission Provider will hold a regional planning summit at which all users of the Transmission System, appropriate state commissions and interested parties may participate in a detailed review of the regional transmission plan. In developing the regional transmission plan, the Transmission Provider shall take into consideration such comments.

11. By November 1, the Transmission Provider shall finalize and approve the regional expansion plan. The Transmission Provider will post such regional transmission plan by November 15.

To the extent that a user of the Transmission System or any state commission does not agree with the final regional expansion plan, such user or the applicable state commission shall first raise this matter with the Transmission Planning Committee. Subsequently, in the event that such matter cannot be resolved by the Transmission Planning Committee, the matter will be resolved in accordance with the Dispute Resolution Procedures set forth in the OATT.

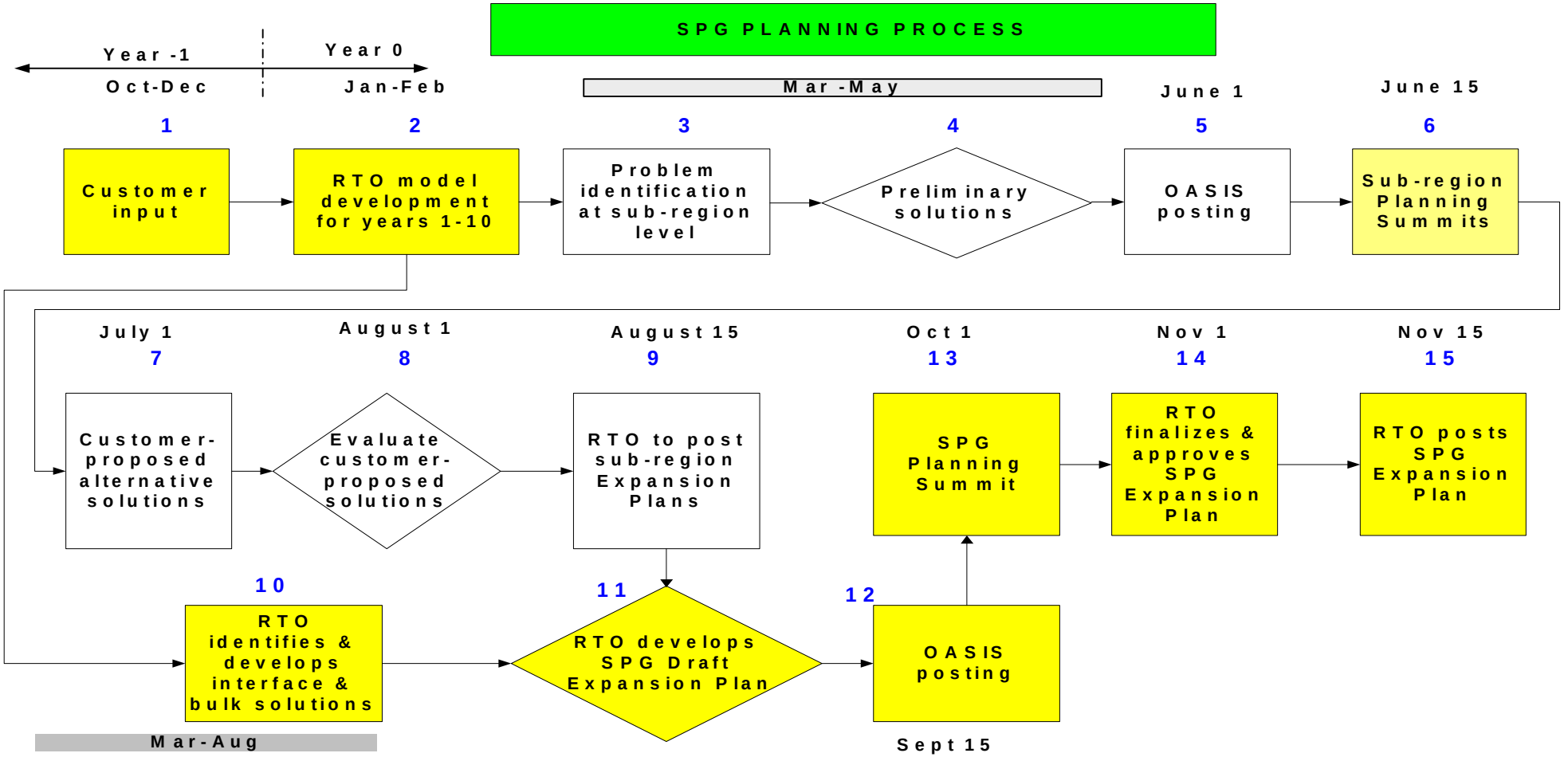
SPG PLANNING PROCESS
Year -1
Year 0
Oct-Dec
Jan-Feb
Mar -May
June 1
June 15
1
2
3
4
5
6
Customer input
RTO model development for years 1-10
Problem identification at sub-region level
Preliminary solutions
OASIS posting
Sub-region Planning Summits
July 1
August 1
August 15
Oct 1
Nov 1
Nov 15
7
8
9
13
14
15
Customer-proposed alternative solutions
Evaluate customer-proposed solutions
RTO to post sub-region Expansion Plans
SPG Planning Summit
RTO finalizes & approves SPG Expansion Plan
RTO posts SPG Expansion Plan
10
11
12
RTO identifies & develops interface & bulk solutions
RTO develops SPG Draft Expansion Plan
OASIS posting
Mar-Aug
Sept 15

Exhibit 2

Reliability Principles

The Network Operating Agreement will specify reliability obligations of the LSE to the Transmission Provider and reliability obligations of the Transmission Provider to the LSE as follows:

I. The obligations of the LSE for the provision of, and procedures for monitoring compliance with, reactive support requirements at each Point of Delivery ("POD").

II. The Transmission Provider shall be obligated to specify and provide monitoring procedures for the level of service reliability for each POD. The Transmission Provider shall provide access to the reliability data for each POD via the internet or other means for the LSEs to review reliability performance. The reliability data will include as a minimum the number of sustained outages at each POD and the duration of each outage that was caused by the transmission system.

III. The Transmission Provider shall develop reliability indices for the purpose of ensuring Transmission System reliability will be provided and maintained in a non-discriminatory manner.